

State of Arizona
Senate
Forty-seventh Legislature
Second Regular Session
2006

SENATE BILL 1543

AN ACT

AMENDING SECTIONS 42-14003 AND 42-14201 THROUGH 42-14204, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 14, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-14205; RELATING TO PROPERTY TAX VALUATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 42-14003, Arizona Revised Statutes, is amended to
3 read:

4 42-14003. Information considered in determining valuation;
5 notice of determination

6 A. In determining valuation under this chapter, the department shall
7 consider all additional RELEVANT information INCLUDING:

- 8 1. FULL CASH VALUE SHALL NEVER BE GREATER THAN MARKET VALUE.
- 9 2. Information that is presented in an appeal. ~~and~~
- 10 3. Information that is otherwise available.

11 B. The department shall notify the property owner of the final full
12 cash value on or before August 31.

13 Sec. 2. Section 42-14201, Arizona Revised Statutes, is amended to
14 read:

15 42-14201. Annual determination of valuation

16 The department shall annually determine, in the manner prescribed by
17 this article, the valuation of ALL PROPERTY, OWNED OR LEASED, AND USED TO
18 OPERATE pipelines ~~that operate~~ in this state.

19 Sec. 3. Section 42-14202, Arizona Revised Statutes, is amended to
20 read:

21 42-14202. Annual report for determining valuation; failure to
22 file; penalty; forfeiture of appeal rights

23 A. On or before April 1 of each year, each company OWNING PROPERTY
24 that is valued pursuant to this article shall file a report with the
25 department, under oath, stating the information that the department requires
26 to ~~enable it to make~~ ALLOW THE DEPARTMENT TO DETERMINE a valuation of the
27 ~~company~~ PIPELINE PROPERTY.

28 B. On written request and for good cause shown, the director may
29 extend the time for filing the report required by this section.

30 C. If a company fails to file the report on or before April 1 of the
31 valuation year, or the extended due date if an extension is granted, the
32 department shall:

33 1. Estimate the value of the property based on one hundred five per
34 cent of the preceding year's full cash value or on any information that is
35 available to the department.

36 2. Also assess a penalty in the amount of the lesser of:

37 (a) One-half of one per cent of the value that is estimated by the
38 department.

39 (b) One hundred dollars per day for each day the company fails to file
40 the report beyond the due date.

41 D. If the report is not filed by May 20 of the valuation year, the
42 company forfeits its right to appeal the valuation and classification
43 pursuant to section 42-14005.

1 Sec. 4. Section 42-14203, Arizona Revised Statutes, is amended to
2 read:

3 42-14203. Determination and notice of valuation; hearing;
4 reporting valuation

5 A. ON OR BEFORE JUNE 15 OF EACH YEAR, THE DEPARTMENT SHALL NOTIFY
6 OWNERS OF PIPELINE PROPERTY IN THIS STATE THAT IS VALUED BY THE DEPARTMENT OF
7 THE DEPARTMENT'S DETERMINATION OF THE PRELIMINARY FULL CASH VALUE OF THE
8 PROPERTY, INCLUDING AN ITEMIZATION OF THE VALUATION OF THE LAND, THE REAL
9 PROPERTY IMPROVEMENTS AND THE PERSONAL PROPERTY.

10 B. ON OR BEFORE JULY 15 OF EACH YEAR, THE PROPERTY OWNER MAY APPLY IN
11 WRITING TO APPEAR BEFORE THE DEPARTMENT TO BE HEARD CONCERNING THE VALUE
12 DETERMINATION.

13 ~~A.~~ C. On or before August 31 of each year, the department shall find
14 the FINAL full cash value of the property ~~of each pipeline that operates in~~
15 ~~this state.~~

16 ~~B.~~ D. The valuation required by this section is the value determined
17 as of January 1 of the valuation year.

18 ~~C.~~ E. On or before November 30 of each year, the department shall
19 transmit the locations, descriptions and valuations OF PIPELINE PROPERTIES to
20 the respective county assessors.

21 Sec. 5. Section 42-14204, Arizona Revised Statutes, is amended to
22 read:

23 42-14204. Computing valuation of pipelines; definitions

24 A. The valuation of pipeline property that is subject to valuation for
25 tax purposes shall be determined ~~in the manner prescribed by this section.~~ AS
26 FOLLOWS:

27 1. THE VALUE OF THE LAND USED BY THE FACILITY SHALL BE DETERMINED BY
28 THE COUNTY ASSESSOR OF THE COUNTY IN WHICH THE PROPERTY IS LOCATED AND
29 TRANSMITTED TO THE DEPARTMENT AND TO THE OWNER OF THE PROPERTY USED TO
30 OPERATE THE PIPELINE.

31 2. THE VALUATION OF THE IMPROVEMENTS TO THE REAL PROPERTY USED IN
32 OPERATING THE FACILITY IS THE COST MULTIPLIED BY VALUATION FACTORS PRESCRIBED
33 BY TABLES ADOPTED BY THE DEPARTMENT, USING A THIRTY-FIVE YEAR LIFE.

34 3. THE VALUATION OF PERSONAL PROPERTY, INCLUDING THE PIPELINE, USED IN
35 OPERATING THE FACILITY IS THE COST MULTIPLIED BY VALUATION FACTORS PRESCRIBED
36 BY TABLES ADOPTED BY THE DEPARTMENT, USING A THIRTY-FIVE YEAR LIFE, AND
37 ADJUSTED AS FOLLOWS:

38 (a) FOR THE FIRST YEAR OF ASSESSMENT, THE DEPARTMENT SHALL USE
39 THIRTY-FIVE PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

40 (b) FOR THE SECOND YEAR OF ASSESSMENT, THE DEPARTMENT SHALL USE
41 FIFTY-ONE PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

42 (c) FOR THE THIRD YEAR OF ASSESSMENT, THE DEPARTMENT SHALL USE
43 SIXTY-SEVEN PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

44 (d) FOR THE FOURTH YEAR OF ASSESSMENT, THE DEPARTMENT SHALL USE
45 EIGHTY-THREE PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

1 (e) FOR THE FIFTH AND SUBSEQUENT YEARS OF ASSESSMENT, THE DEPARTMENT
2 SHALL USE THE SCHEDULED DEPRECIATED VALUE AS PRESCRIBED IN THE VALUATION
3 TABLES ADOPTED BY THE DEPARTMENT, USING A THIRTY-FIVE YEAR LIFE.

4 4. IN ADDITION TO THE COMPUTATION PRESCRIBED IN PARAGRAPHS 2 AND 3 OF
5 THIS SUBSECTION, THE PROPERTY OWNER MAY SUBMIT DOCUMENTATION SHOWING THE NEED
6 FOR, AND THE DEPARTMENT MUST CONSIDER, AN ADDITIONAL ADJUSTMENT TO RECOGNIZE
7 OBSOLESCENCE USING STANDARD APPRAISAL METHODS AND TECHNIQUES.

8 ~~B. The value of construction work in progress equals eighty five per~~
9 ~~cent of the amount spent and entered on the taxpayer's accounting records as~~
10 ~~of December 31 of the preceding calendar year as construction work in~~
11 ~~progress.~~ THE DEPARTMENT SHALL NOT VALUE PERSONAL PROPERTY CONSTRUCTION WORK
12 IN PROGRESS UNTIL THE PROPERTY IS FIRST PLACED IN COMMERCIAL SERVICE. FOR
13 THE PURPOSES OF THIS SUBSECTION, "COMMERCIAL SERVICE" MEANS:

14 1. FOR MACHINERY AND EQUIPMENT USED IN THE OPERATION OF A PIPELINE
15 BEING VALUED AND PLACED ON THE TAX ROLL FOR THE FIRST TIME, THE OFFICIAL
16 ASSUMPTION OF OPERATION AND OWNERSHIP OF THE MACHINERY OR EQUIPMENT FROM THE
17 CONTRACTOR BY THE PIPELINE OPERATOR.

18 2. FOR MACHINERY, EQUIPMENT OR NEW PIPELINE ADDED TO EXISTING
19 PIPELINES, WHEN THE CONSTRUCTION WORK HAS PROGRESSED TO A SUFFICIENT DEGREE
20 FOR THE MACHINERY, EQUIPMENT OR PIPELINE TO BE USEFUL FOR THE PURPOSE FOR
21 WHICH IT IS BEING CONSTRUCTED.

22 3. FOR MACHINERY, EQUIPMENT OR PIPELINE RELATED TO SELF-CONSTRUCTED
23 FACILITIES, WHEN THE CONSTRUCTION WORK HAS PROGRESSED TO A SUFFICIENT DEGREE
24 FOR THE MACHINERY, EQUIPMENT OR PIPELINE TO BE USEFUL FOR THE PURPOSE FOR
25 WHICH IT IS BEING CONSTRUCTED.

26 C. The value of materials and supplies equals the total cost of
27 materials and supplies as of December 31 of the preceding calendar year.

28 D. The value of gas stored underground equals the total cost of
29 **NONCURRENT** gas stored underground as of December 31 of the preceding calendar
30 year.

31 ~~E. The value of noncapitalized leased operating property shall be~~
32 ~~determined by applying to the original cost of the noncapitalized leased~~
33 ~~operating property the ratio derived from dividing the preliminary system~~
34 ~~value by the original cost of the plant.~~

35 ~~F.~~ E. The department shall determine the **TOTAL** valuation of ~~a~~ ALL
36 pipeline **PROPERTY** as follows:

37 1. Determine the base value.

38 ~~2. Compute the value change factor.~~

39 ~~3. Multiply the values in paragraphs 1 and 2 of this subsection to~~
40 ~~compute the preliminary system value. If the value change factor does not~~
41 ~~apply, the preliminary system value is the system net book value of plant in~~
42 ~~service as of December 31 immediately preceding the current year.~~

43 2. COMPUTE THE VALUE OF NEW INVESTMENT AS DESCRIBED IN THIS SECTION.

44 3. ADD THE LAND VALUE AS DETERMINED BY THE COUNTY ASSESSOR.

1 4. Add the value of ~~construction work in progress,~~ materials and
2 supplies, ~~noncapitalized leased operating property~~ and gas stored underground
3 ~~to the preliminary system value.~~

4 ~~5. Compute the allocation factor.~~

5 ~~6. Multiply the sum computed pursuant to paragraph 4 of this~~
6 ~~subsection by the allocation factor.~~

7 ~~G. All terms and applications of terms shall be interpreted as nearly~~
8 ~~as possible, under the circumstances, according to the federal energy~~
9 ~~regulatory commission uniform system of accounts for pipelines in effect on~~
10 ~~January 1, 1989.~~

11 F. FOR THE PURPOSES OF DETERMINING COST PURSUANT TO THIS SECTION:

12 1. "COST" MEANS THE COST OF CONSTRUCTING THE PROPERTY OR ACQUIRING THE
13 PROPERTY IN AN ARM'S LENGTH TRANSACTION.

14 2. THE COST OF PERSONAL PROPERTY IS THE INVOICE COST OF THE PERSONAL
15 PROPERTY, THE COST OF TRANSPORTING THE PROPERTY TO THE FACILITY SITE AND THE
16 COST OF LABOR TO INSTALL THE PROPERTY, PLUS ANY TRANSACTION PRIVILEGE OR USE
17 TAXES PAID.

18 3. THE COST OF LEASED PROPERTY IS THE LESSOR'S COST OF THE PROPERTY,
19 EXCEPT THAT IN THE CASE OF A LEASE FINANCING TRANSACTION, THE COST IS THE
20 ACTUAL COST OF CONSTRUCTION BASED ON THE INVOICE COST SIMILAR TO ANY OTHER
21 TYPE OF FINANCING.

22 4. IN THE CASE OF A FACILITY THAT IS ACQUIRED FROM ANOTHER TAXPAYER:

23 (a) IF, AFTER THE ACQUISITION, THE BUYER HAS POSSESSION OF THE COST
24 INFORMATION, THE VALUATION OF THE FACILITY SHALL CONTINUE BASED ON THE
25 SELLER'S COST AS IF THERE WERE NO CHANGE IN OWNERSHIP.

26 (b) IF, AFTER THE ACQUISITION, THE BUYER DOES NOT POSSESS THE COST
27 INFORMATION, THE ACQUISITION COST IN AN ARM'S LENGTH TRANSACTION SHALL BE
28 USED.

29 ~~H. G. In this section, unless the context otherwise requires:~~

30 ~~1. "Allocation factor" means the factor used to assign a portion of~~
31 ~~the system value to this state and is computed by dividing the total Arizona~~
32 ~~original cost of plant in service, materials and supplies, construction work~~
33 ~~in progress, noncapitalized leased operating property and gas stored~~
34 ~~underground as of December 31 of the preceding calendar year by the~~
35 ~~corresponding total system original cost as of December 31 of the preceding~~
36 ~~calendar year.~~

37 ~~2. The "asset change factor" is computed by dividing the system net~~
38 ~~book value of plant in service as of December 31 immediately preceding the~~
39 ~~current valuation year by the system net book value of plant in service as of~~
40 ~~December 31 immediately preceding the prior valuation year. If the~~
41 ~~denominator is zero, the asset change factor does not apply.~~

42 ~~3. 1. The "base value" is the final full cash value of the system~~
43 ~~plant in service in the preceding valuation year. If the property was not~~
44 ~~subject to property valuation in this state in the preceding valuation year,~~
45 ~~the value is the net book value of plant in service plus the value of~~

1 ~~construction work in progress, materials and supplies, noncapitalized leased~~
2 ~~operating property and gas stored underground~~ PIPELINE PROPERTY FOR THE 2006
3 TAX YEAR. THE BASE VALUE SHALL BE ADJUSTED IN SUBSEQUENT YEARS FOR ANNUAL
4 BOOK DEPRECIATION AND RETIREMENTS, IF ANY TO COMPUTE A NEW BASE VALUE FOR
5 EACH YEAR, EXCLUDING PREVIOUS ADJUSTMENTS FOR CONSTRUCTION WORK IN PROGRESS,
6 MATERIALS AND SUPPLIES, LEASED OPERATING PROPERTY AND GAS STORED
7 UNDERGROUND. If ownership changes, the base value shall be transferred to
8 the new owner.

9 ~~4. The "capitalization rate" is the sum of the year end thirty year~~
10 ~~treasury bond rate plus 6.8 per cent.~~

11 ~~5. The "change in capitalization rate" is computed by dividing the~~
12 ~~current year capitalization rate by the previous year capitalization rate.~~

13 ~~6. The "change in earnings before interest and taxes" is computed by~~
14 ~~dividing the average earnings before interest and income taxes for the three~~
15 ~~years immediately preceding the current valuation year by the average~~
16 ~~earnings before interest and income taxes for the three years immediately~~
17 ~~preceding the previous valuation year. If less than four years of earnings~~
18 ~~data are available, this factor does not apply. If four years of earnings~~
19 ~~data are available and a major plant addition or retirement occurs, for the~~
20 ~~valuation year after the addition or retirement occurs, this ratio shall be~~
21 ~~derived by dividing the earnings before interest and income taxes for the~~
22 ~~year immediately preceding the current valuation year by the earnings before~~
23 ~~interest and income taxes for the year immediately preceding the previous~~
24 ~~valuation year.~~

25 ~~7. "Construction work in progress" means the total of the balances of~~
26 ~~work orders for plant in process of construction on the last day of the~~
27 ~~preceding calendar year.~~

28 ~~8.~~ 2. "Gas stored underground" means the COST OF THE noncurrent
29 ~~portion of the cost of recoverable gas that is~~ purchased or produced by the
30 ~~utility, COMPANY AND that is stored in depleted or partially depleted gas or~~
31 ~~oil fields or other underground. reservoirs and that is not held to meet the~~
32 ~~service requirements of the utility's customers.~~

33 ~~9. The "income change factor" is computed by dividing the change in~~
34 ~~earnings before interest and taxes by the change in the capitalization rate.~~
35 ~~If the change in earnings before interest and taxes does not apply, the~~
36 ~~income change factor does not apply.~~

37 ~~10. "Major plant addition or retirement" means an addition or~~
38 ~~retirement of plant in the year preceding the current valuation year that~~
39 ~~results in an increase or decrease of at least twenty per cent of the~~
40 ~~original cost of plant in service.~~

41 ~~11. "Noncapitalized leased operating property" means property that is~~
42 ~~subject to an agreement that transfers the use of property to the lessee~~
43 ~~during the term of the lease and that is not capitalized on the lessee's~~
44 ~~balance sheet.~~

1 ~~12. "Preliminary system value" means the base value multiplied by the~~
2 ~~value change factor.~~

3 ~~13. "System net book value of plant" means the original cost of the~~
4 ~~system plant in service less the related accumulated provision for~~
5 ~~depreciation.~~

6 ~~14. "System value" means the sum of the system value of plant in~~
7 ~~service, construction work in progress, materials and supplies,~~
8 ~~noncapitalized leased property and gas stored underground.~~

9 ~~15. The "value change factor" is the average of the income change~~
10 ~~factor and the asset change factor. If the income change factor does not~~
11 ~~apply, the value change factor is the asset change factor. If the asset~~
12 ~~change factor does not apply, the value change factor does not apply.~~

13 3. "IMPROVEMENTS" MEANS BUILDINGS, INCLUDING ADMINISTRATION BUILDINGS,
14 MAINTENANCE WAREHOUSES AND GUARD SHACKS, SIDEWALKS, DRIVES, CURBS, PARKING
15 LOTS, TUNNELS, DUCT BANKS, CANALS, FENCING AND LANDSCAPING.

16 4. "PERSONAL PROPERTY" MEANS ALL TANGIBLE PROPERTY EXCEPT FOR LAND AND
17 REAL PROPERTY IMPROVEMENTS. PERSONAL PROPERTY INCLUDES FOUNDATIONS OR
18 SUPPORTS FOR THE MACHINERY OR APPARATUS FOR WHICH THEY ARE PROVIDED,
19 INCLUDING PIPELINES.

20 Sec. 6. Title 42, chapter 14, article 5, Arizona Revised Statutes, is
21 amended by adding section 42-14205, to read:

22 42-14205. Allocation of pipeline value among taxing
23 jurisdictions

24 THE VALUE OF PROPERTY COMPUTED UNDER SECTION 42-14204 SHALL BE
25 ALLOCATED AMONG THE VARIOUS TAXING JURISDICTIONS AS FOLLOWS:

26 1. COMBINE THE CURRENT VALUES FOR LAND, REAL AND PERSONAL PROPERTY
27 USED IN THE OPERATION OF A PIPELINE, MATERIALS AND SUPPLIES, AND THE VALUE OF
28 GAS STORED UNDERGROUND AND THE BASE VALUE PURSUANT TO SECTION 42-14204.

29 2. ALLOCATE THE VALUE UNDER PARAGRAPH 1 OF THIS SECTION AMONG THE
30 RESPECTIVE TAXING JURISDICTIONS IN PROPORTION TO THE ORIGINAL COST OF ALL
31 PROPERTY BY SITUS LOCATION.